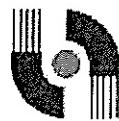


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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 1, 2017/2018

### DFA5038 – FINANCIAL ACCOUNTING 3

( For Diploma Students Only )

27 OCTOBER 2017  
9:00am – 12:00pm  
( 3 Hours )

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#### INSTRUCTIONS TO STUDENT

1. This question paper consists of 8 pages with 4 questions.
2. Write your answers in the answer booklet provided.
3. Answer ALL questions.

**QUESTION 1****Part A**

Credo's Hardware Company reported cost of goods sold as follows.

	2016 (RM)	2017 (RM)
Beginning inventory	10,000	40,000
Cost of goods purchased	<u>160,000</u>	<u>175,000</u>
Cost of goods available for sale	<u>170,000</u>	<u>215,000</u>
Ending inventory	<u>40,000</u>	<u>35,000</u>
Cost goods sold	<u><u>130,000</u></u>	<u><u>180,000</u></u>

Credo's made two errors: (1) 2016 ending inventory was overstated RM3,000, and (2) 2017 ending inventory was understated RM5,000.

**Instructions:**

- (a) Compute the correct cost of goods sold for the year 2016 and 2017. Show all workings.

(3 Marks)

- (b) Identify the effect on cost of goods sold and net income (either overstated or understated), when ending inventory is overstated.

(1 Mark)

- (c) Based on answer in (a), assume RM5,000 of ending inventory amount for the year 2016 was still on transit, with terms FOB Destination. Should Credo include or exclude the inventory amount? Briefly explain your answer with the correct amount of ending inventory (if any).

(2 Marks)

**Part B**

Gilbert Company produces refine glasses for premium houseware. At the beginning of January 2017, the company had beginning inventory of 600 unit that costs RM300 per unit. Below are list of purchases made by Gilbert during the month of January 2017:

Jan 3 250 @ RM600  
 10 350 @ RM500  
 18 400 @ RM450  
 22 550 @ RM350  
 31 600 @ RM300

**Continued...**

Gilbert sold 1,800 units of glasses with the selling price of RM900 per unit. The company uses a periodic inventory system to account for their inventory.

**Instructions:**

- (a) Calculate the total cost of goods available for sale using a table format. Show all workings. (3 Marks)
- (b) Calculate the value of ending inventory and total cost of goods sold as at 31 December 2016 using Average Cost method. Show all workings. (3 Marks)
- (c) According to Financial Reporting Standard (FRS102 – Inventories), the cost of inventories shall comprise all costs to purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Provide **FOUR (4)** examples of costs that are excluded from the calculation of cost in inventory. (4 Marks)

**Part C**

During the month of January 2017, Bold Corporation concludes that it has sufficient cash to permit some short-term investments in debt and stock securities. During the year, the following transactions occurred.

- Feb 1 Invested 1,000 shares of Munich Corporation common stock for RM50,000 cash. This investment represent 15% ownership to the company.
- Apr 1 Purchased 1,000, RM100, 5% Docky Corporation bonds for RM100,000 cash. Interest is payable semi-annually on 1 April and 1 October.
- Jul 1 Received cash dividend of RM0.50 per share on Munich Corporation common stock.
- Aug 1 Sold 300 shares of Munich Corporation common stock for RM52 per share.
- Oct 1 Accrued semi-annual interest for Docky Corporation bonds.
- 1 Sold 500 of Docky Corporation bonds for RM95 per share in cash.

As at 31 December 2017, the fair value of the Munich Corporation common stock was RM55 per share.

**Instructions:**

- (a) Journalize the above transactions. (7 Marks)
- (b) Prepare the adjusting entry as at 31 December 2017, to report the investment security at fair value. The security is consider to be trading securities. Show all workings. (2 Marks)

**(TOTAL 25 MARKS)**

**Continued...**

## **QUESTION 2**

### **Part A**

As at 1 January 2017, each partner in Pleated Poppy Company had the following credit balances:

	(RM)
Mable, capital	40,000
Daisy, capital	25,000
Emma, capital	10,000

The income-sharing ratios are 3:2:1, respectively.

#### **Instructions:**

Based on above information, journalize the admission of Sarah as a new partner under each of the following independent assumptions.

- (a) Sarah purchases 25% of the company's capital interest by paying RM10,000 each to Mable, Daisy and Emma. In return, Mable and Daisy each give up RM8,000 of their capital equity and Emma give up RM2,750 of her equity to Sarah.

(2 Marks)

- (b) Sarah invests RM25,000 cash in the company with 25% capital interest.

(1 Mark)

- (c) Sarah invests RM30,000 cash in the partnership for a 25% capital interest that includes a bonus to existing partners. Show all workings.

(3.5 Marks)

### **Part B**

Bakery Tilly Company had the following credit balances for each of their partners' capital and income ratios as at 31 December 2016.

Partner	Capital Balance (RM)	Income Ratio (%)
Ryan	150,000	70
Clark	60,000	20
Paige	30,000	10

#### **Instructions:**

- (a) Journalize the withdrawal of Paige under each of the following independent assumptions.

- i. Each remaining partners agrees to pay RM15,000 in cash from personal funds to purchase Paige's ownership equity. Each receives 50% of Paige's equity.

(1.5 Marks)

**Continued...**

- ii. From partnership assets, Paige is paid RM25,000 cash which includes a bonus to the remaining partners with income ratio 3:2. Show all workings.

(3 Marks)

- (b) Provide THREE (3) reasons for remaining partners to receive bonuses.

(1.5 Marks)

### Part C

The Sun Bright Company had the following account balances as at 31 December 2016:

Assets	(RM)	Liabilities & Owner's equity	(RM)
Cash	50,000	Notes payable	20,000
Accounts receivable	16,500	Accounts payable	30,000
Inventory	20,000	Somer, capital	33,000
Equipment	58,000	Ralph, capital	34,000
Accum.depreciation - equipment	<u>(1,500)</u>	Ernet, capital	<u>26,000</u>
	<u>143,000</u>		<u>143,000</u>

The partners decided to liquidate, and their total non-cash assets were able to sell at RM97,200 cash. Somer, Ralph and Ernet share income ratio 3:2:1, respectively.

#### Instructions:

- (a) Based on above information, prepare journal entries and show all workings to record:
- i. The sale of noncash assets. (3 Marks)
  - ii. The allocation of the gain or loss on liquidation to the partners. (3.5 Marks)
  - iii. Payment of creditors. (1.5 Marks)
  - iv. Distribution of cash to the partners. (3.5 Marks)
- (b) Prepare the Cash account by using T-account format. (1 Mark)

**(TOTAL 25 MARKS)**

**Continued...**

**QUESTION 3****Part A**

Chemistry Corporation, a merchandise company that buys and sells health supplement products and equipments, distributes their inventory to selected pharmacies in Malaysia. The following are selected transactions occurred. Chemistry Corporation prepares financial statements quarterly.

- |     |    |   |
|-----|----|---|
| Jan | 5  | Purchased merchandise on account from Biotic Company, RM30,000, terms 3/10, n/30. (Chemistry Corporation uses the perpetual inventory system.)          |
| Feb | 2  | Issued a 10%, 2-month, RM30,000 note to Biotic Company in payment of account.   |
| Mar | 31 | Accrued interest for 2 months on Biotic Company note.   |
| Apr | 1  | Paid face value and interest on Biotic Company note.  |
| Jun | 1  | Purchased physio equipment that costs RM15,000 from Generic Company which were paid by cash RM5,000 and by notes with terms 8%, 3-month, RM10,000 note. |
| Aug | 31 | Accrued interest for 3 months on Generic Company note.  |
| Sep | 1  | Paid face value and interest on Generic Company note.   |
| Oct | 1  | Borrowed RM40,000 from the RHB Bank by issuing a 6-month, 10% note with a face value of RM40,000.   |
| Dec | 31 | Accrued interest expense for 3 months on RHB Bank note.   |

**Instruction:**

Journalize the above transactions for Chemistry Corporation. Show all workings.

(12 Marks)

**Part B**

Breezy Air Company, runs an air-conditioner business in Klang Valley area. Their product carry a 5-year warranty. Based on past experience, 7% of the units sold will be returned during the warranty period for repairs. The average cost of repairs under warranty is RM30 for labor and RM100 for parts per unit.

During 2016, 1,000 units were sold at an average price of RM2,000 per unit. During the year, 50 of the units sold were repaired at the average price per unit.

**Instructions:**

- Prepare the journal entry to record the repairs made under warranty. Show all working. (2.5 Marks)
- Prepare the journal entry to record the warranty expense for the year and calculate the expected cost of remaining warranty contracts. Show all working. (2.5 Marks)

**Continued...**

- (c) Answer the following independent questions regarding on contingent liabilities.
- Briefly explain the concept of contingent liability. (1 Marks)
  - Product warranties are an example of a contingent liability. Identify and briefly explain the accounting principle applied to account for warranty costs. (2 Marks)

### Part C

Fill in the blanks by using the given answers on each of the following statements. Answer in the answer sheets provided.

Warranty expense	Inventory	Repair parts	Notes payable
Contingent liability	Interest expense	Equipment	Current liabilities

- \_\_\_\_\_ are expected to be paid within one year or the operating cycle, whichever is longer.
- \_\_\_\_\_ usually require the borrower to pay interest.
- \_\_\_\_\_ is reported under other expenses and losses in the income statement.
- A \_\_\_\_\_ is a liability that may occur if some future event takes place.
- In concept, the estimating of \_\_\_\_\_ when products are sold is similar to the estimating of bad debt expense based on credit sales.

(5 Marks)

(TOTAL 25 MARKS)

### QUESTION 4

#### Part A

The financial statements of Lumier Company appear below:

**LUMIER COMPANY**  
Statement of Comprehensive Income  
For the Year Ended 31 December 2016

	(RM)	(RM)
Net sales .....	450,000	
Cost of goods sold .....		200,000
Gross profit.....		150,000
Expenses		
Operating expenses .....	48,000	
Interest expense .....		12,000
Total expenses.....		60,000
Income before income taxes.....		90,000
Income tax expense.....		30,000
Net income .....		60,000

**Continued...**

**LUMIER COMPANY**  
**Comparative Statement of Financial Position**  
**31 December**

	2016	2015
<u>Assets</u>	(RM)	(RM)
Cash .....	30,000	50,000
Short-term investments .....	30,000	60,000
Accounts receivable (net).....	40,000	20,000
Inventory .....	60,000	70,000
Property, plant and equipment (net) .....	<u>240,000</u>	<u>300,000</u>
Total assets .....	<u>400,000</u>	<u>500,000</u>
 <u>Liabilities and stockholders' equity</u>		
Accounts payable.....	25,000	30,000
Short-term notes payable .....	40,000	90,000
Bonds payable .....	75,000	160,000
Common stock.....	140,000	140,000
Retained earnings .....	120,000	80,000
Total liabilities and stockholders' equity.....	<u>400,000</u>	<u>500,000</u>

Additional information during the year 2016:

1. Cash dividends for the year were declared and paid amounted RM20,000.
2. Weighted-average number of shares of common stock outstanding was 30,000 shares.
3. Market value of common stock on 31 December 2016 was RM20 per share.

**Instruction:**

Based on above information, calculate the following ratios for Lumier Company for the year 2016. Show all workings.

- (a) current ratio
- (b) return on common stockholders' equity
- (c) price-earnings ratio
- (d) acid-test ratio
- (e) accounts receivable turnover
- (f) times interest earned
- (g) profit margin
- (h) days in inventory
- (i) payout ratio and
- (j) return on assets

(20 Marks)

**Continued...**

**Part B**

Answer the following independent questions regarding on financial statement analysis.

- (a) There are **THREE (3)** tools to evaluate the financial statement data. Identify and briefly explain each analysis tools.

(3 Marks)

- (b) Briefly explain liquidity ratios and profitability ratios and provide **ONE (1)** example of each ratio.

(2 Marks)

**(TOTAL 25 MARKS)**

**End of Page.**